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TAGS: ECON EFIN EINV ETRD PINR PREL SI
SUBJECT: FINANCE MINISTER SAYS SLOVENIAN ECONOMY BETTER OFF THAN MANY

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¶B. 08 LJUBLJANA 496
¶C. 08 LJUBLJANA 516
¶D. 08 LJUBLJANA 550

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Summary

¶1. (SBU) CDA met with Finance Minister France Krizanic on March 6 to discuss Krizanic's views of the Global Financial Crisis (GFC) and Slovenia's overall economic position. Krizanic appeared realistic, but upbeat about Slovenia's financial situation. He explained that while Slovenia avoided the first wave of the crisis -- bank failures caused by underestimating the risks involved in certain types of securities -- the country was being hit hard by the second wave: sharply lower demand in Slovenia's main export markets. Thanks to a recent successful bond issue, Slovenia has a two billion euro "rainy-day fund" to assist banks and institutions whose "mother companies reside in Slovenia." The government also approved on Thursday a loan guarantee for Slovenia's largest bank that will allow it to raise capital on the international credit market. Krizanic welcomed U.S. investment in Slovenian infrastructure projects and industrial development. End Summary.

Slovenia's financial position in the global context
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¶2. (C) Krizanic explained that Slovenia was lucky enough to miss the "first wave" of the GFC - caused by turmoil in the financial sector. The country was not affected until the "second wave" hit - a drop in consumer demand by the victims of the first wave. Slovenia's economy depends heavily on exports. Krizanic said that when demand dried up in the countries hit by the banking crisis (the first wave), Slovenian manufacturers took a big hit. However, Krizanic believes that the recession in Slovenia is "two-thirds psychological." He stated that manufacturers immediately overreacted, cutting production hours and reducing their inventories to as little as a one week's supply. Due to the overreaction, Krizanic expects negative year-over-year first quarter growth. However, Krizanic claimed that despite the drop in exports and subsequent overreaction by Slovenian firms, "Slovenian companies will be OK." He also expressed concern about the economic fate of new EU member states outside the Euro zone, mentioning specifically the Czech Republic, Hungary and Poland. He invited the CDA to meet every month to exchange views on the GFC.

Slovenia counters the crisis

¶3. (U) The Finance Minister outlined measures the government of Slovenia enacted to counter the crisis. At the first sign of crisis in larger European countries, Slovenia followed the EU's lead and took immediate steps to reassure the public and business. Among other measures it guaranteed bank deposits up to two billion euros and then pumped an additional 500M

Euro into banks to ensure business lending would continue at previous levels. The government is also subsidizing Slovenian companies that reduce hours, to avoid laying people off. The government will reimburse companies up to a 10% cut in work-hours, up to per hour cap. (For more details on Slovenian financial measures, see reftels A-D.) On paper, Slovenia's fiscal deficit is within the Eurozone's three-percent limit, but Krizanic said that in reality the deficit will probably be about four percent of GDP in 2009.

¶4. (C) Krizanic explained that, in order to raise the money, Slovenia contracted with Goldman Sachs to issue a 1B Euro bond (facilitated by Slovenian citizen Tomaz Lovse, President of the American Chamber of Commerce). The Government inserted extra infrastructure spending into the 2009 supplementary budget. The money will go primarily to electricity plants and highway construction, including improving access roads to those highways from rural areas. Krizanic welcomed U.S. companies interest in investing in some of these infrastructure projects. He mentioned that American businesses might be particularly interested in industrial development within 20Km of the newly improved highway corridors. He also mentioned privatization of the state railways as a potential area for investment.

Comment

¶5. (C) Krizanic mused on economic theory at length - invoking Keynes, Adam Smith and others. He repeatedly compared the current situation to the 1930's and early 1940's, at one point wondering aloud how the Obama administration's current deficit spending compared to that of the U.S. during WWII --

the clear implication being that it may take more than the current stimulus package to turn things around. He was pleased that the world had apparently learned from that era, and specifically mentioned avoiding the mistake of protectionism. He seemed confidant that protectionism simply wasn't a realistic option - laughing off remarks by French President Sarkozy as "great theater." He did, however, urge the U.S. to continue pressuring China to revalue its currency.
FREDEN